August 23, 2012

To: Tim Burgess, Chair, Government Performance & Finance Committee
Nick Licata, Vice Chair
Sally J. Clark, Member
Mike O'Brien, Alternate

From : John McCoy, Council Central Staff

Re: Background on Retirement Interest Rate Resolution

Each pay period, the Seattle City Employees' Retirement System (SCERS) collects mandatory contributions from the City and from employee members to support the pension benefit. Employees currently pay 10.03% of regular (non-overtime) salary into the Retirement Fund, and the City in 2012 is paying 11.01%. Seattle Municipal Code 4.36.110 directs the SCERS Board to credit members for their contributions "together with regular interest" that accrues at a rate set by the Board. The SMC also says that the rate is "subject to approval of the City Council", which would be provided by the Resolution before you.

For many years, the SCERS Board credited member contributions at an annual rate of 5.75%, compounded annually. In 2011, the SCERS Board voted (and Council approved) to continue crediting older contributions at that rate but apply 4.47% to new contributions and revise the rate for these newer contributions annually.

	Pre-2012 Rate	2012 Rates	*2013 Rates (Proposed)*
Member contributions on or before 12/31/11	5.75%	5.75%	*5.75%*
Member contributions after 12/31/11		4.47%	*3.33%*

For 2013, the Board has voted to credit interest at a rate of 3.33%, which is the average yield on 30-year Treasury Bonds in a recent 12-month period. For comparison, the SCERS portfolio earned 0% in the most recent full year (2011).

The interest rate affects members' accumulated contributions with interest (ACWI) balance, which can be an important factor in several situations. Non-vested members who leave City service are required to take out their ACWI, typically, to roll it over into another tax-deferred retirement account. Vested members who leave City service have the option of doing this or retiring when eligible. At retirement, members may elect several options where the ACWI comes into play. For example, members may take a lump-sum payment of some or all of their ACWI and receive a smaller pension based on the remaining City contributions. Certain contingent benefit options (such as the survivor lump-sum benefit) also depend partially on the ACWI.